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**88-27**  
No. \_\_\_\_\_

Supreme Court, U.S.  
**FILED**  
JUL 6 1988

**JOSEPH E. SPANIOLO, JR.**  
**CLERK**

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IN THE  
**Supreme Court of the United States**

OCTOBER TERM, 1987

\_\_\_\_\_  
RUSCO INDUSTRIES, INC.,

*Petitioner,*

v.

ANN McLAUGHLIN, SECRETARY OF LABOR,  
UNITED STATES DEPARTMENT OF LABOR,

*Respondent.*

\_\_\_\_\_  
On Petition For Writ of Certiorari to the  
United States Court of Appeals  
for the Eleventh Circuit

\_\_\_\_\_  
PETITION FOR WRIT OF CERTIORARI  
\_\_\_\_\_

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### QUESTION PRESENTED FOR REVIEW

The Bankruptcy Code, 11 U.S.C. §101 (1978), *et seq.*, establishes a scheme of payment priorities for funds of the bankruptcy estate. The Fair Labor Standards Act of 1938, 29 U.S.C. §201 (1938), *et seq.*, grants to the Secretary of Labor injunctive power to stop violations of the Act by requiring an employer to pay wages to remove the "taint" from manufactured goods before those goods can be sold. The question presented is whether the provisions of the Fair Labor Standards Act of 1938 prevail over the Bankruptcy Code and require a trustee in bankruptcy to pay out funds contrary to the payment priority scheme established by the Bankruptcy Code.

**PARTIES TO THE PROCEEDINGS  
IN THE UNITED STATES COURT OF APPEALS  
FOR THE ELEVENTH CIRCUIT**

1. Rusco Industries, Inc., the debtor corporation, and its wholly-owned subsidiaries: Rusco California, Inc., Pacific Securities Transfer, Inc., Sperling Manufacturing, Inc., and Rusco/Hilite Building Products, Inc. All of these entities are in bankruptcy and their court-appointed trustee is A. Stephenson Wallace.

2. Ann McLaughlin, substituted as plaintiff for William E. Brock, resigned, Secretary of Labor, United States Department of Labor.



## TABLE OF CONTENTS

	Page
QUESTION PRESENTED FOR REVIEW .....	i
PARTIES TO THE PROCEEDINGS IN THE UNITED STATES COURT OF APPEALS FOR THE ELEVENTH CIRCUIT .....	ii
TABLE OF CONTENTS .....	iii
TABLE OF AUTHORITIES .....	iv
OFFICIAL REPORTS OF OPINION BELOW .....	1
STATEMENT OF THE GROUNDS FOR JURISDICTION ...	1
STATUTES INVOLVED .....	2
STATEMENT OF THE CASE .....	6
(a) Introduction .....	6
(b) Statement of Facts .....	6
(c) Proceedings Below .....	7
ARGUMENT .....	8
A. THE COMPLAINT FILED BY THE SECRETARY VIOLATES §362 OF THE BANKRUPTCY CODE IN THAT IT GOES FURTHER THAN ENFORCEMENT OF THE GOVERNMENT'S "POLICE OR REGULATORY POWER." .....	8
B. THE PURPOSES OF THE FAIR LABOR STANDARDS ACT ARE NOT FURTHERED BY ENFORCING IT AGAINST A BANKRUPTCY ESTATE .....	11
C. CONCLUSION .....	12

## TABLE OF AUTHORITIES

CASES:	Page
<i>Brock v. Ely Group, Inc.</i> , 788 F.2d 1200 (6th Cir. 1986), <i>aff'd sub nom, Citicorp Industrial Credit, Inc. v. Brock</i> , 107 S.Ct. 2694 (1987) ..	11,12
<i>Brock v. Rusco Industries, Inc.</i> , 842 F.2d 270 (11th Cir. 1988) .....	1,9
<i>Citicorp Industrial Credit, Inc. v. Brock</i> , ___ U.S. ___, 107 S.Ct. 2694, 97 L.Ed.2d 23 (1987) ..	11
<i>E.E.O.C. v. Rath Packing Co.</i> , 787 F.2d 318 (8th Cir. 1986), <i>cert. denied</i> , ___ U.S. ___, 107 S.Ct. 307, 93 L.Ed.2d 282 (1986) .....	10
<i>N.L.R.B. v. Evans Plumbing Co.</i> , 639 F.2d 291 (5th Cir. 1981) .....	10
<i>Penn Terra Ltd. v. Department of Environmental Resources</i> , 733 F.2d 267 (3rd Cir. 1984) .....	10
STATUTES:	
Bankruptcy Code, 11 U.S.C. §101 (1978), <i>et seq.</i> ..	3,6
11 U.S.C. §362 .....	3,8,12
11 U.S.C. §362(a)(1) .....	8
11 U.S.C. §362(b)(4) .....	9
11 U.S.C. §507 .....	9
Fair Labor Standards Act of 1938, 29 U.S.C. §201 (1938), <i>et seq.</i> .....	2,6
29 U.S.C. §215 .....	2
29 U.S.C. §217 .....	1,2
28 U.S.C. §1254(1) .....	1
28 U.S.C. §1334 .....	1
28 U.S.C. §2101(c) .....	1
MISCELLANEOUS:	
124 Congressional Record H11089, U.S. Code Cong. Admin. News 1977, 660-661 .....	10

### OFFICIAL REPORTS OF OPINION BELOW

The opinion of the United States Court of Appeals for the Eleventh Circuit, reported under the name *Brock vs. Rusco Industries, Inc.*, is found at 842 F.2d 270 (11th Cir. 1988). The orders of the United States District Court for the Southern District of Georgia and the United States Bankruptcy Court for the Southern District of Georgia are unreported.

Copies of the above opinion and orders are included in the Appendix to this Petition.

### STATEMENT OF THE GROUNDS FOR JURISDICTION

The judgment sought to be reviewed was entered April 11, 1988, by the United States Court of Appeals for the Eleventh Circuit. The jurisdiction of the United States District Court for the Southern District of Georgia is based upon 29 U.S.C. §217 and 28 U.S.C. §1334.

The within Petition for Writ of Certiorari is presented within ninety (90) days pursuant to 28 U.S.C. §2101(c) and this Court's jurisdiction is invoked under 28 U.S.C. §1254(1).

## STATUTES INVOLVED

1. §§215 and 217 of the Fair Labor Standards Act of 1938, 29 U.S.C. §201, *et seq.*, provide in pertinent part as follows:

### §215:

(a) After the expiration of one hundred and twenty days from June 25, 1938, it shall be unlawful for any person—

(1) to transport, offer for transportation, ship, deliver, or sell with knowledge that shipment or delivery or sale thereof in commerce is intended, any goods in the production of which any employee was employed in violation of section 206 or section 207 of this title, or in violation of any regulation or order of the Administrator issued under section 214 of this title; except that no provision of this chapter shall impose any liability upon any common carrier for the transportation in commerce in the regular course of its business any goods not produced by such common carrier, and no provision of this chapter shall excuse any common carrier from its obligation to accept any goods for transportation, offer, shipment, delivery, or sale of such goods by a purchaser who acquired them in good faith in reliance on written assurance from the producer that the goods were produced in compliance with the requirements of this chapter, and who acquired such goods for value without notice of any such violation, shall not be deemed unlawful;

(2) to violate any of the provisions of section 206 or section 207 of this title, or any of the provisions of any regulation or order of the Administrator issued under section 214 of this title;

§217:

The district courts, together with the United States District Court for the Southern District of the Canal Zone, the District Court of the Virgin Islands, and the District Court of Guam shall have jurisdiction, for cause shown, to restrain violations of section 215 of this title, including in the case of violations of section 215(a)(2) of this title the restraint of any withholding of payment of minimum wages or overtime compensation found by the court to be due to employees under this chapter (except sums which employees are barred from recovering, at the time of the commencement of the action to restrain the violations, by virtue of the provisions of this title);

2. §362 of the Bankruptcy Code, 11 U.S.C. §101, *et seq.* provides in pertinent part as follows:

(a) Except as provided in subsection (b) of this section, a petition filed under section 301, 302, or 303 of this title [11 USCS §301, 302, or 303], or an application filed under section 5(a)(3) of the Securities Investor Protection Act of 1970 (15 U.S.C. 78eee(a)(3)) [15 USCS §78333(a)(3)], operates as a stay, applicable to all entities, of—

(1) the commencement or continuation, including the issuance or employment of proc-

ess, of a judicial, administrative, or other action or proceeding against the debtor that was or could have been commenced before the commencement of the case under this title [11 USCS §§ 1 et seq.], or to recover a claim against the debtor that arose before the commencement of the case under this title [11 USCS §§ 1 et seq.];

(2) the enforcement, against the debtor or against property of the estate, of a judgment obtained before the commencement of the case under this title [11 USCS § 1 et seq.];

(3) any act to obtain possession of property of the estate or of property from the estate or to exercise control over property of the estate;

(4) any act to create, perfect, or enforce any lien against property of the estate;

(5) any act to create, perfect, or enforce against property of the debtor any lien to the extent that such lien secures a claim that arose before the commencement of the case under this title [11 USCS § 1 et seq.];

(6) any act to collect, assess, or recover a claim against the debtor that arose before the commencement of the case under this title [11 USCS § 1 et seq.];

(7) the setoff of any debt owing to the debtor that arose before the commencement of the case under this title [11 USCS § 1 et seq.] against any claim against the debtor; and

(8) the commencement or continuation of a proceeding before the United States Tax Court concerning the debtor.

(b) The filing of a petition under section 301, 302, or 303 of this title [11 USCS §301, 302, or 303], or of an application under section 5(a)(3) of the Securities Investor Protection Act of 1970 (15 U.S.C. 78333(a)(3)) [15 USCS §78eee(a)(3)], does not operate as a stay—

(1) under subsection (a) of this section, of the commencement or continuation of a criminal action or proceeding against the debtor;

(2) under subsection (a) of this section, of the collection of alimony, maintenance, or support from property that is not property of the estate;

(3) under subsection (a) of this section, of any act to perfect an interest in property to the extent that the trustee's rights and powers are subject to such perfection under section 546(b) of this title [11 USCS §546(b)] or to the extent that such act is accomplished within the period provided under section 547(e)(2)(A) of this title [11 USCS §547(e)(2)(A)];

(4) under subsection (a)(1) of this section, of the commencement or continuation of an action or proceeding by a governmental unit to enforce such governmental unit's police or regulatory power;

(5) under subsection (a)(2) of this section, of the enforcement of a judgment, other than a money judgment, obtained in an action or proceeding by a governmental unit to enforce such governmental unit's police or regulatory power;



## STATEMENT OF THE CASE

### (a) Introduction

The issue before the Court presents a conflict between the Fair Labor Standards Act of 1938, 29 U.S.C. §201, *et seq.*, and the Bankruptcy Code, 11 U.S.C. §101, *et seq.* The Fair Labor Standards Act empowers the Secretary of Labor to seek an injunction prohibiting the sale of "tainted" goods, i.e., goods manufactured in violation of the Act. In order to sell the goods, the "taint" must be removed by paying to the Secretary a sum sufficient to cure the violation of the Act. In this case, that sum equals the minimum wage for workers who were unpaid for two weeks prior to the filing of a petition in bankruptcy. This results in a conflict between the two statutes since the payment to the Secretary for the benefit of unpaid workers is in derogation of the priority of payments scheme in the Bankruptcy Code.

### (b) Statement of Facts

Rusco Industries, Inc., is a Delaware corporation which had been engaged in the manufacture of doors and windows. It operated facilities in Millen, Georgia, Santa Fe Springs, California, and Meadville, Pennsylvania. Rusco employed approximately 150 persons at these locations. The company began encountering severe financial difficulty in the latter part of 1985, which resulted in its line of credit begin terminated in late January, 1986. The company and its wholly owned subsidiaries filed for reorganization under Chapter 11 of the Bankruptcy Code on February 3, 1986. During the approximate period between January 20, 1986 and the date of filing, Rusco's employees received no pay for work performed during that period.



**(c) Proceedings Below**

On February 21, 1986, the Secretary of Labor filed a complaint against Rusco pursuant to Section 17 of the Fair Labor Standards Act alleging a violation by failure to pay its employees the applicable minimum wage and further seeking an injunction to enjoin Rusco from shipping, delivering, or selling goods in interstate commerce that had been produced in violation of the Act. The injunction was granted by the district court on March 20, 1986. The injunction was thereafter modified to allow Rusco to sell inventory in its possession upon the condition that the proceeds from the sale be deposited into the registry of the district court. On May 20, 1986, the district court entered an order transferring the case to the bankruptcy court and directing that the funds held in the court's registry should be disbursed according to future order of the bankruptcy court. *See* Appendix "A" attached hereto.

The Secretary then filed a motion with the bankruptcy court seeking the disbursement of funds to him. The disbursement was sought for the purpose of reimbursing employees and to remove the "taint" from Rusco's "hot goods." The bankruptcy trustee (who had been appointed subsequent to the filing of the Secretary's complaint) opposed the motion for disbursement. On November 7, 1986, the bankruptcy court entered an order denying the Secretary's motion for disbursement and directing that the proceeds held in the district court's registry be turned over to the trustee for disbursement according to the priorities of the Bankruptcy Code. *See* Appendix "B" attached hereto.

On November 13, 1986, the district court entered an order adopting the opinion of the bankruptcy court, dissolving the injunction, and dismissing the Secretary's action in its entirety. *See* Appendix "C" attached hereto. The Secretary filed an appeal with the United States Court of Appeals for the Eleventh Circuit, the case was briefed and argued, and the Eleventh Circuit Court of Appeals entered its judgment on April 11, 1988. *See* Appendix "D" attached hereto.

### ARGUMENT

Under the facts of this case, there is an irreconcilable conflict between provisions of the Bankruptcy Code and the Fair Labor Standards Act. The Eleventh Circuit Court of Appeals has erroneously held that the Fair Labor Standards Act prevails over the Bankruptcy Code. Such a result is not consistent with congressional intent in enactment of either statute.

#### **A. THE COMPLAINT FILED BY THE SECRETARY VIOLATES §362 OF THE BANKRUPTCY CODE IN THAT IT GOES FURTHER THAN ENFORCEMENT OF THE GOVERNMENT'S "POLICE OR REGULATORY POWER."**

The Secretary's "hot goods" complaint was filed subsequent to the filing of Rusco's petition in bankruptcy. §362 of the Bankruptcy Code generally prohibits the filing of an action against the debtor that could have been commenced before the commencement of the case, or the filing of an action to recover a claim against the debtor that arose before commencement of the bankruptcy case. §362(a)(1). Rusco's employees were not paid for work performed prior to filing and there are no allegations that employees have gone unpaid since the filing.

An exception to the stay is found in §362(b)(4), which specifically allows an action to enforce a governmental unit's "police or regulatory power." The question presented by this case is whether or not the government's interest falls under this exception. The Eleventh Circuit held that the Secretary "brought the suit to protect legitimate businesses from unfair competition and to enforce the federal law regarding minimum wage." 842 F.2d at 273. Therefore, the Eleventh Circuit found that the suit was one brought under the government's police power. However, the undeniable effect of allowing the filing and requiring the bankruptcy trustee to pay the Secretary is to prefer one set of creditors of the bankruptcy estate over all other creditors of the estate. Such a preference as to creditors violates the priority of payments scheme of §507 of the Bankruptcy Code, 11 U.S.C. §507 (1978). This preference raises the question as to whether the government's interest is "police or regulatory" or "pecuniary," i.e., an action seeking to recover money or other assets of the bankruptcy estate. §362(b)(4) of the Bankruptcy Code should not and does not apply when the interest of the governmental unit is solely "pecuniary." The intent of Congress in enacting §362(b)(4) was explained by Don Edwards, Chairman of the Subcommittee on Civil and Constitutional Rights to the House Committee of the Judiciary as follows:

' "Section 362(b)(4) indicates that the stay under Section 362(a)(1) does not operate to affect the commencement or continuation of an action or proceeding by a governmental unit to enforce the governmental unit's police or regulatory power.

**“This section is intended to be given a narrow construction in order to permit the governmental units to pursue actions to protect the health and welfare and not to apply to actions by a governmental unit to protect a pecuniary interest in property of the debtor or property of the estate.”** 124 Congressional Record H11089, U.S. Code Cong. Admin. News 1977, 660-661 reprinted in 1978. [Emphasis supplied]”

The cases cited by the Eleventh Circuit in support of its holding are readily distinguishable. In *N.L.R.B. v. Evans Plumbing Co.*, 639 F.2d 291 (5th Cir. 1981), the Fifth Circuit did in fact hold that the NLRB proceeding was within the police or regulatory exception to §362. However, it specifically stated that it was not deciding the question as to whether or not the back pay award could be enforced against the bankruptcy estate. 639 F.2d at 293. Similarly, in *E.E.O.C. v. Rath Packing Co.*, 787 F.2d 318 (8th Cir. 1986), *cert. denied*, — U.S. —, 107 S.Ct. 307, 93 L.Ed.2d 282 (1986), the Eighth Circuit held that the proceeding was police or regulatory, but actually overturned the lower court's order setting up a detailed payment plan, holding that the EEOC claim could not be given preference over other creditors. 787 F.2d at 326-327. Finally, the Third Circuit in *Penn Terra, Ltd. v. Department of Environmental Resources*, 733 F.2d 267 (3rd Cir. 1984), did require the bankruptcy estate to spend funds to clean up pollution. The funds, however, were not paid, either directly or indirectly, to a creditor of the estate in violation of the priority scheme of the Bankruptcy Code. Thus, *Penn Terra* and the other cases cited by the Eleventh Circuit

never go as far as the Eleventh Circuit has gone in the case below: requiring the bankruptcy estate to pay out funds which prefer one class of creditors over all others.

**B. THE PURPOSES OF THE FAIR LABOR STANDARDS ACT ARE NOT FURTHERED BY ENFORCING IT AGAINST A BANKRUPTCY ESTATE.**

This Court recently explored the purposes behind enactment of the Fair Labor Standards Act in *Citicorp Industrial Credit, Inc. v. Brock*, \_\_\_ U.S. \_\_\_, 107 S.Ct. 2694, 97 L.Ed.2d 23 (1987). In holding that a secured creditor was a "person" subject to the Act,<sup>1</sup> this Court pointed out that among the aims of the Act was the elimination of the competitive advantage enjoyed by goods produced under substandard conditions. 107 S.Ct. at 2700. It is submitted that any competitive advantage which might have been enjoyed by Rusco's goods produced in violation of the Act vanished when Rusco filed for bankruptcy. As Judge Engel stated in his dissent in *Brock v. Ely Group, Inc.*, 788 F.2d 1200 (6th Cir. 1986), *aff'd sub nom, Citicorp Industrial Credit, Inc. v. Brock*, 107 S.Ct. 2694 (1987):

"The practical effect of the majority's decision is not to remove any tainted goods from competition for, as happened here, almost always the result will be that the goods are sold, if not in foreclosure, then in bankruptcy, or by other attaching creditors. As here, the goods will go out in the market,

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<sup>1</sup> This Court specifically held that the issue of the operation of the Bankruptcy Code in the *Citicorp* factual situation was not before it. 107 S.Ct. 2701, footnote 10.



but whether they are sold for competitively destructive prices will not depend on the cost of their production but upon the manner of their sale in any event."

788 F.2d at 1207 (footnote omitted). Thus, the aim of the Fair Labor Standards Act to eliminate competitive advantage is really meaningless in a bankruptcy setting for basically two reasons: 1) the goods are normally sold in a forced sale for a price which has no bearing on the cost of production; and 2) any unfair "profit" made by the company because it did not pay employees goes into the pool of funds to be administered under the Bankruptcy Code, and there is no more damage to competition than there would otherwise be in a bankruptcy setting where all workers had been paid.

### CONCLUSION

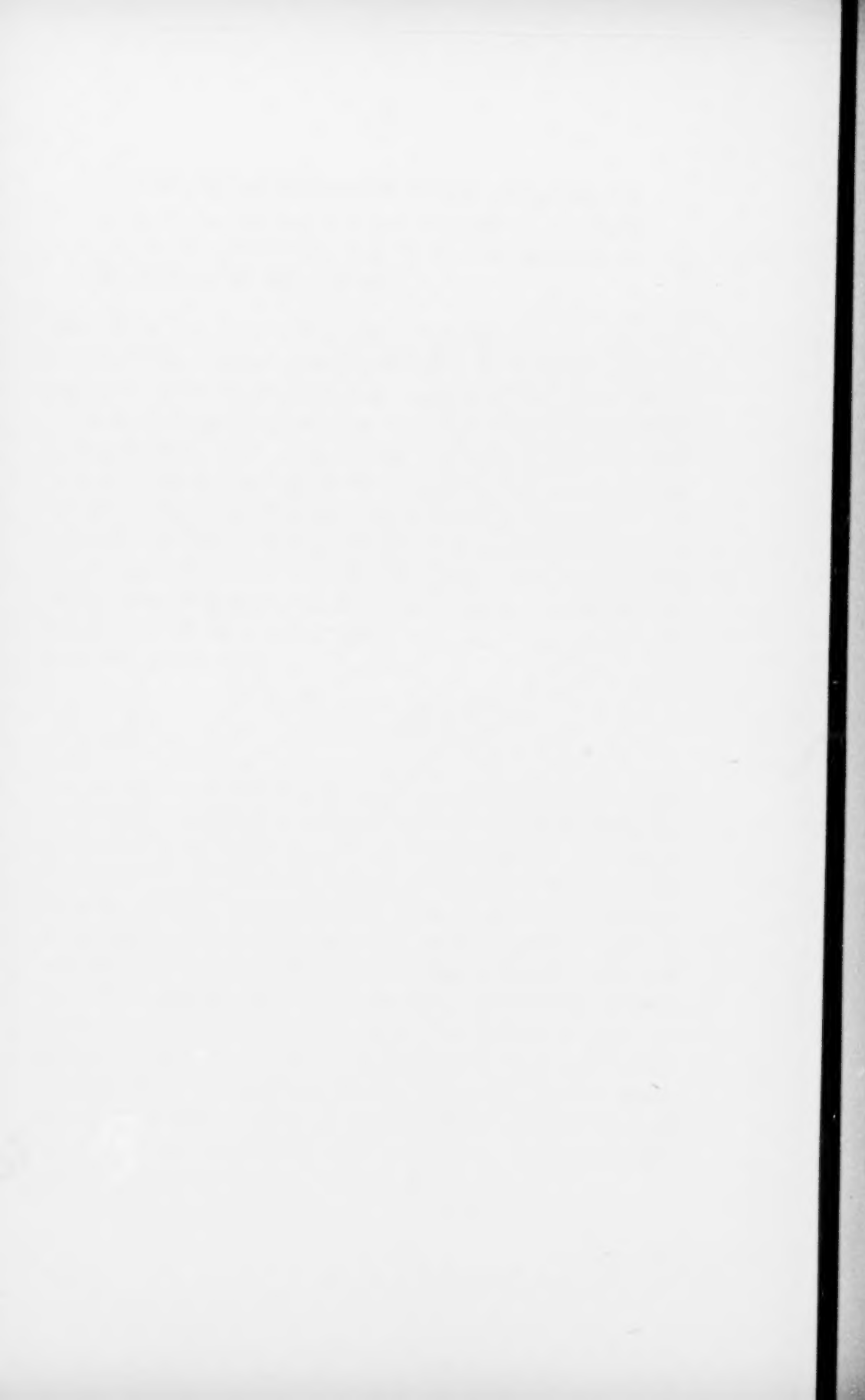
Obviously, Congress has not specifically addressed the interplay between the Bankruptcy Code and the Fair Labor Standards Act as presented in this case. However, Congressional intent that a bankruptcy estate be strictly administered according to the statute without interference from a governmental unit is clearly addressed in §362 of the Bankruptcy Code and in the remarks of Representative Edwards, *supra*. This clear intent, coupled with the showing that the intent of the Fair Labor Standards Act is not really advanced by the holding of the Eleventh Circuit, mandates that this Court grant the Petition for Writ of Certiorari to consider and act upon the important question presented by this case.

Respectfully submitted,

A. STEPHENSON WALLACE

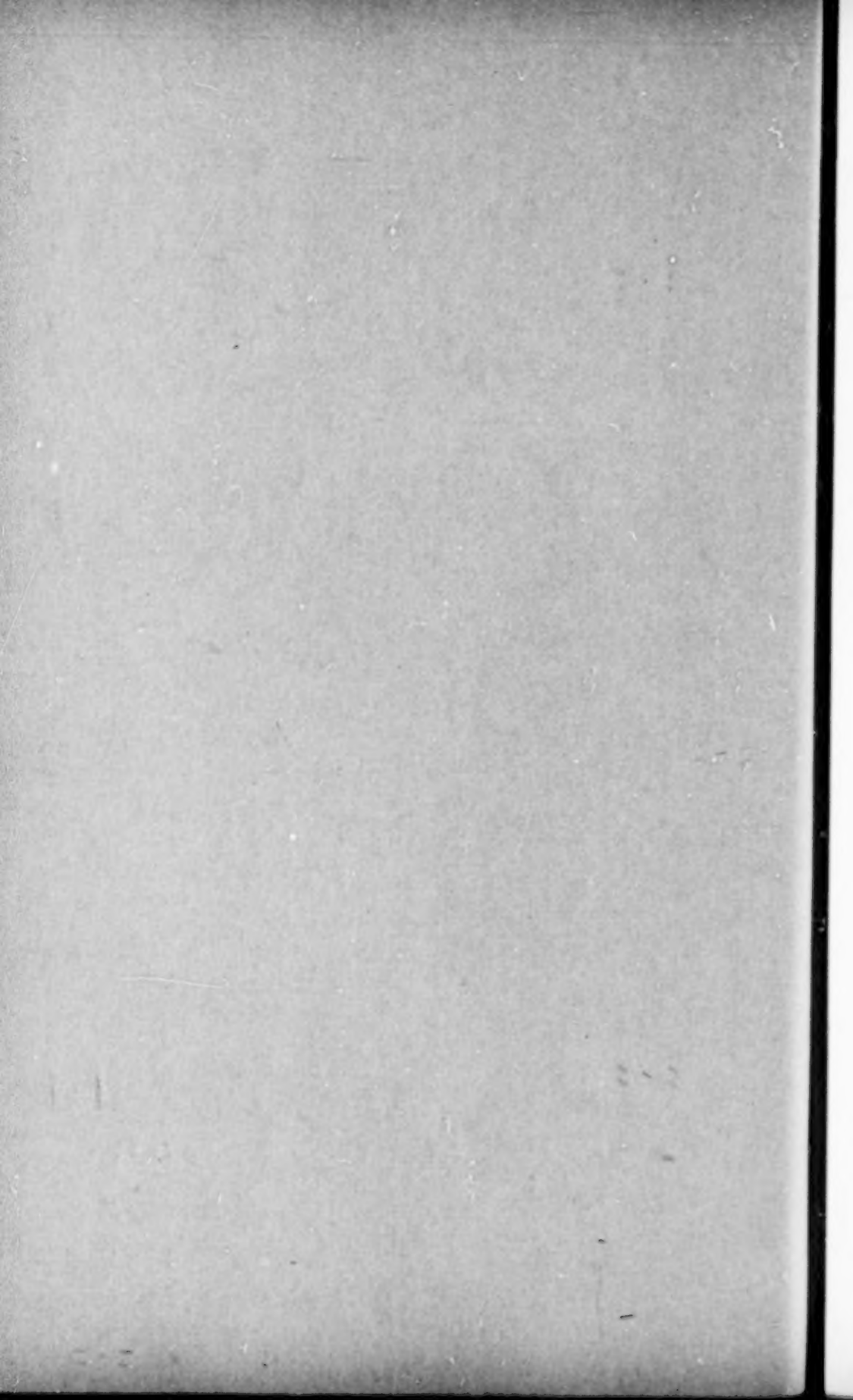
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## **APPENDIX**



## APPENDIX "A"

IN THE UNITED STATES DISTRICT COURT FOR THE  
SOUTHERN DISTRICT OF GEORGIA  
STATESBORO DIVISION

WILLIAM E. BROCK	)	
Secretary of Labor,	)	
United States Department	)	
of Labor,	)	
	)	
<i>Plaintiff,</i>	)	
	)	
vs.	)	CIVIL ACTION
	)	CV686-025
RUSCO INDUSTRIES, INC.,	)	
	)	
<i>Defendant.</i>	)	

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ORDER

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The captioned case seeking injunctive relief actually is one which seeks a distribution for wage claimants from the estate and assets of a Chapter 11 bankruptcy debtor. The plaintiff Secretary seeks in this litigation to enhance the priority position of the wage claimants which has been specifically set by the Congress in the Bankruptcy Code. I have maintained this as an active file, negotiating frequently with the lawyers long enough to assure myself of a fair and lawful result.

The rights of a class of creditors cannot be separately dealt with by a federal district judge and by a bankruptcy judge. The priority and timing of distributions from the debtor must be governed by the Bankruptcy Code.

Accordingly, this case is transferred to the Honorable Herman W. Coolidge, Bankruptcy Judge, and the Clerk of this Court shall disburse the funds in the registry of this Court according to the order of Judge Coolidge.

ORDER ENTERED at Savannah, Georgia, this 27th day of May, 1986.

/s/ DUDLEY H. BOWEN, JR.  
UNITED STATES DISTRICT JUDGE

## APPENDIX "B"

## IN THE UNITED STATES BANKRUPTCY COURT

FOR THE  
SOUTHERN DISTRICT OF GEORGIA  
Statesboro Division

In the matter of:	)	
	)	
RUSCO INDUSTRIES, INC.	)	Chapter 11 Case
	)	
<i>Debtor</i>	)	Number <u>686-00031</u>

## ORDER

William E. Brock, Secretary of Labor, United States Department of Labor, has moved this Court to disburse to the Department of Labor certain funds held by the Clerk of the United States District Court for the purpose of reimbursing employees of Rusco Industries, Inc. for wages earned and for other purposes. The matter came on to be heard on October 8, 1986.

## FINDINGS OF FACT

The facts in the instant case are essentially undisputed. Rusco Industries, Inc., filed for relief under Chapter 11 of the Bankruptcy Code on February 3, 1986. Post-filing, the Secretary of Labor filed a complaint in the United States District Court for the Southern District of Georgia alleging that Rusco had violated the minimum wage provisions of the Fair Labor Standards Act, 29 U.S.C. §201, *et seq.*, by failing to pay its employees for work actually performed. Rusco's failure to pay its employees occurred prior to the filing of the Chapter 11 proceedings. The Secretary also filed a motion for a temporary restraining order and preliminary injunction, requesting that the Dis-

trict Court enjoin and restrain Rusco from transporting, shipping, delivering, or selling goods produced by it in violation of the Fair Labor Standards Act. The District Court granted the request and Rusco was so restrained. Subsequently, the District Court issued another Order allowing Rusco to sell certain inventory and requiring it to deposit the proceeds into the registry of the District Court, pending a determination of how those proceeds should be disbursed. At least \$190,868.07 has been deposited in the District Court's registry in an interest-bearing account.<sup>1</sup>

On May 28, 1986, the District Court entered an Order transferring the case to this Court, and directing that the funds on deposit be disbursed according to the Order of this Court. The Secretary of Labor subsequently filed a Motion for Disbursement of Funds, requesting that the funds be disbursed to him. This Court Ordered all interested parties to respond to the Secretary's Motion. The Trustee, who had been appointed in the Chapter 11 case on May 2, 1986, filed a response opposing disbursement of the funds to the Secretary, which response was adopted by counsel for the prior Debtor-in-possession, and by AMR Group, Inc., a secured creditor in the case.

### CONCLUSIONS OF LAW

The purpose of the Fair Standards Act is to insure that workers receive a minimum wage for work performed. The Act provides that an employer who has not paid the minimum wage may be enjoined from selling the goods produced in violation of the Act. The injunction provision of the Act forces an employer into compliance by essentially

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<sup>1</sup> By an Order dated August 26, 1986, this Court allowed the Trustee to conduct a sale of certain inventory of the Debtor Corporation located in California. It was Ordered that the proceeds of that sale attributable to the sale of inventory also be deposited into the registry of the District Court.

stopping sales until the Act is complied with.<sup>2</sup> The Secretary of Labor's argument that the funds on hand should be paid to him centers around characterizing the payment as a payment necessary to dissolve the injunction. The Secretary argues that the payment to him would not be a payment of wage claims in bankruptcy, but "are the sums required to remedy the FLSA violation." *Donovan v. TMC Industries*, 25 WH Cases 829, 836 (N.D. Ga. 1982). All parties concede, however, that the Secretary would use the money to pay the unpaid workers to the extent of the minimum wage.

The Trustee argues that to pay the funds to the Secretary violates the priority scheme outlined in §507 of the Bankruptcy Code. He further argues that the payment to the Secretary defeats the intent of the Bankruptcy Code that the Bankruptcy Code have total and ultimate authority over the assets of the Debtor. In this regard, the Court finds that these funds are "property of the estate" under §541 of the Bankruptcy Code.

The issue in this case is whether or not the Bankruptcy Code or the Fair Labor Standards Act should prevail in deciding what happens to these funds. The Supreme Court of the United States, in *NLRB v. Bildisco & Bildisco*, 104 S.Ct. 1188, 79 L.Ed.2d 8482 (1984), decided the issue of whether or not the National Labor Relations Board could find a debtor guilty of unfair labor practice for unilaterally rejecting or modifying a collective-bargaining agreement before formal rejection of that agreement by the Bankruptcy Court. The Supreme Court, in deciding that the NLRB could not do so, recognized that enforcement of §8(d) of the National Labor Relations Act requiring the

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<sup>2</sup> It is doubtful that the injunction remedy in this case is either effective or proper. Rusco had ceased operations when the injunction was requested, has not produced goods since then, and no plan of reorganization has yet been put forward which proposes a re-start of production and sales.



Debtor-in-possession to bargain collectively conflicted directly with the Debtor's right to reject the collective-bargaining agreement under the provisions of the Bankruptcy Code providing for the rejection of executory contracts. While the NLRB's action was nominally an action to enforce §8(d), the practical effect of the action was to require the Debtor to adhere to a collective-bargaining agreement which was no longer immediately enforceable by virtue of the filing of the petition in bankruptcy.

In the instant case, the practical effect of requiring the Trustee to pay the funds to the Secretary of Labor is to prefer one group of creditors of the estate over another. This is directly contrary to the Bankruptcy Code in which Congress sought not to prefer one creditor over another, but devised a scheme of priorities of payment among creditors of the estate. See Bankruptcy Code §507 (11 U.S.C. §507).

The Secretary relies on *Donovan v. TMC Industries*, 25 WH Cases 829 (N.D. Ga. 1982), which adopted the Secretary's position that these funds are not wages, but merely constitute a sum of money required to remedy a violation of the Fair Labor Standards Act. This court is not persuaded by *Donovan*. No matter how these funds are characterized, if they are paid to the Secretary of Labor as requested, they will be used to prefer one set of creditors in bankruptcy over other creditors. Further, not only will certain creditors of the estate be preferred to others, but assets of the estate will be released from the exclusive control of the Bankruptcy Court. This Court will not allow the clear purposes of the Bankruptcy Code to be thwarted in such a manner.

### ORDER

Based upon the foregoing Findings of Fact and Conclusions of Law, IT IS HEREBY ORDERED that the funds currently held in the registry of the United States District



Court for the Southern District of Georgia be turned over to the Trustee to be disbursed according to the priorities of the Bankruptcy Code.

The Court recommends that the injunction granted by the United States District Court for the Southern District of Georgia on March 20, 1986, be dissolved, and IT IS FURTHER ORDERED that a copy of this Order be immediately sent to the United States District Court for action on this recommendation.

/s/ HERMAN W. COOLIDGE

HERMAN W. COOLIDGE

United States Bankruptcy Judge

Dated at Savannah, Georgia  
this 6th day of November, 1986

While the matter was transferred to the bankruptcy judge for plenary disposition, there could be some ques-

tions of the ability of the bankruptcy court to modify or annul an injunction entered by a federal district judge. To the extent that any injunction granted by this court has survived the transfer of the case to the bankruptcy judge, such injunction is dissolved. The opinion of the bankruptcy judge is ADOPTED as opinion of this court with respect to all issues between the parties. This case is DISMISSED in its entirety. The clerk will enter judgment in favor of the defendant in this civil action. The parties shall bear their own costs. A true copy of this order shall be forwarded to the clerk of the bankruptcy court.

ORDER ENTERED at Augusta, Georgia, this 13th day of November, 1986.

/s/ DUDLEY H. BOWEN, JR.  
United States District Judge

**APPENDIX "D"**

**UNITED STATES COURT OF APPEALS,  
ELEVENTH CIRCUIT**

**April 11, 1988**

**No. 87-8389**

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**WILLIAM E. BROCK,**  
**Secretary of Labor,**  
**United States Department of Labor**  
*Plaintiff-Appellant,*

**v.**

**RUSCO INDUSTRIES, INC.,**  
*Defendant-Appellee.*

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**Appeal from the United States District  
Court for the Southern District of Georgia.**

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Before FAY and KRAVITCH, Circuit Judges, and ATKINS\*, Senior District Judge.

FAY, Circuit Judge:

Prior to filing for bankruptcy, Rusco Industries, Inc. ("Rusco") violated the Fair Labor Standards Act ("FLSA") §§1-9,29 U.S.C. §§201-219 (1982), by not paying its employees for their final two weeks of work. Consequently, the Secretary of Labor brought an action in district court to prevent the sale of all the goods produced in violation of the FLSA. The district court found that the Bankruptcy Code automatically stayed the Secretary's FLSA action and dismissed the case. The Secretary appeals the dismissal, and we reverse.

## I. Background

Rusco employed about 150 people in the manufacture of windows and doors. Because of financial difficulty, Rusco did not pay its employees from January 20, 1986 to February 3, 1986. On February 3, Rusco filed for reorganization under Chapter 11 of the Bankruptcy Code. 11 U.S.C. §§1101-1174 (1982).

On February 21, 1986, the Secretary filed an injunctive action under section 17 of the FLSA.<sup>1</sup> The Secretary alleged that Rusco would violate section 15(a)(1) of the FLSA (the "hot goods" provision) by selling goods produced by employees paid below the minimum wage.<sup>2</sup> On March 24, 1986, the district court enjoined the sale of Rusco's inventory unless Rusco deposited the proceeds of the sale into the district court's registry. Believing that bankruptcy law controlled the action, the district court transferred the case to the bankruptcy court and directed that the proceeds received from the sale of inventory be disbursed according to the future order of the bankruptcy court.

In the bankruptcy court, the Secretary of Labor moved that he receive a portion of the proceeds from the inventory in order to remove the "taint" from the "hot goods."<sup>3</sup>

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<sup>1</sup> Section 17 gives the federal district courts the power to enjoin violations of section 15 of the FLSA. 29 U.S.C. §217(1982).

<sup>2</sup> Section 15(a)(1) provides:

(a) . . . it shall be unlawful for any person—

(1) to transport, offer for transportation, ship, deliver, or sell in commerce, or to ship, deliver, or sell with knowledge that shipment or delivery or sale thereof in commerce is intended, any goods in the production of which any employee was employed in violation of [section 06 or section 07 of the FLSA] . . . 29 U.S.C. §215(a)(1) (1982).

<sup>3</sup> The money required to remove the "taint" equals the minimum wage that Rusco did not pay its employees. To the extent that Rusco's debt to its employees exceeds the minimum wage, both parties agree that the employees will receive the rest of their wages in accordance with the priority scheme of the Bankruptcy Code. See 11 U.S.C. §507(a) (1982).

The bankruptcy court viewed the motion as equivalent to granting a "superlien" to the employees and ordered that the proceeds be distributed in accordance with the priorities set forth in the Bankruptcy Code. The district court then adopted the opinion of the bankruptcy judge, dissolved its previous injunction, and dismissed the action in its entirety.<sup>4</sup>

## II. Analysis

### A. The Fair Labor Standards Act<sup>5</sup>

[1] The FLSA mandates the payment of a minimum wage<sup>6</sup> to covered employees. Section 6(a) provides that every employer, as defined in the Act, shall pay his employees at least the specified minimum wage. A manufacturer is not excused from the requirement of Section 6(a) simply because it is approaching insolvency. See *Citicorp Industrial Credit, Inc. v. Brock*, \_\_\_ U.S. \_\_\_, 107 S.Ct. 2694, 2698 n.4, 97 L.Ed.2d 23 (1987). Since Rusco does not dispute its failure to pay its employees for their final two weeks of work, we conclude that the goods produced during these final two weeks were manufactured in violation of §6 of the FLSA and are "hot goods" for the purposes of §15(a)(1).

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<sup>4</sup> The district court has stayed its final order and directed that the trustee place the proceeds from the sale of the inventory in an interest-bearing account until we resolve this appeal.

<sup>5</sup> Our description of the FLSA patterns the description given by the Supreme Court in *Citicorp Industrial Credit, Inc. v. Brock*, \_\_\_ U.S. \_\_\_, 107 S.Ct. 2694, 97 L.Ed.2d 23 (1987).

<sup>6</sup> Section 6(a) provides:

(a) Every employer shall pay to each of his employees who in any workweek is engaged in commerce or in the production of goods for commerce, or is employed in an enterprise engaged in commerce or in the production of goods for commerce, wages at the following rates:

(1) . . . not less than \$3.35 an hour after December 31, 1980, except as otherwise provided in this section . . . 29 U.S.C. §206(a) (1982).

The Supreme Court has indicated that Congress's concern with the "hot goods" provision was two-fold. First, Congress sought to improve labor conditions. Second, Congress wanted "to eliminate the competitive advantage enjoyed by goods produced under substandard conditions." *Citicorp*, 107 S.Ct. at 2700. Most importantly, the Supreme Court concluded that preventing the shipment "of goods produced under substandard conditions is not simply a means to enforce other statutory goals; it is itself a central purpose of the FLSA." *Id.* at n.8 (emphasis added).

The issue before us is whether Rusco's proceeding in the bankruptcy court automatically stays an injunctive suit by the Secretary of Labor under section 17 of the FLSA. Under the FLSA, Congress clearly forbade the sale of goods manufactured in violation of the minimum wage provision. To remove the "taint" and lift the injunction, however, Rusco must pay the Secretary the minimum wages of the employees. Since the Secretary has stated that he will give the money to the employees, the practical effect of removing the "taint" will be to grant the employees' minimum wage claims a higher priority than the claims of other creditors. We recognize that this creates a tension between the FLSA and the Bankruptcy Code and that we must determine what Congress intended in light of this tension.

### B. Automatic Stay

[2] Rusco's argument is that section 362 of the Bankruptcy Code stays the Secretary's action.<sup>7</sup> Subsection (a)

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<sup>7</sup> Section 362 provides:

(a) Except as provided in subsection (b) of this section, [the filing of a bankruptcy petition] operates a stay, applicable to all entities, of—

(1) the commencement or continuation including the issuance or employment of process, of a judicial, administrative, or other proceedings against the debtor that was or could have been commenced



of section 362 effectively stays all suits besides the bankruptcy petition; subsection (b) operates as a limited exception to subsection (a). The district court believed that the automatic stay provision required it to dismiss the Secretary's injunctive action.

The district court erred in dismissing the case. The purpose behind the automatic stay provision is "to facilitate the orderly administration of the debtor's estate." *Donovan v. TMC Industries, Ltd.*, 20 B.R. 997, 1001 (N.D. Ga. 1982). The automatic stay stops collection efforts and helps relieve the debtor of final pressures. S.Rep. No. 989, 95th Cong., 2d Sess. 54-55, reprinted in 1978 U.S. Code Cong. & Admin. News 5787, 5840-41. The exception to the automatic stay, however, recognizes that the government must be able "to enforce its laws uniformly without regard to the debtor's position in the bankruptcy court." *Donovan*, 20B.R. at 1001. Consequently, Congress permitted a suit by the government "to prevent or stop violation of fraud, environmental protection, consumer protection, safety, or similar police or regulatory laws" to proceed. S.Rep. No.

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before the commencement of the case under this title, or to recover a claim against the debtor that arose before the commencement of the case under this title;

(2) the enforcement, against the debtor or against property of the estate, of a judgment obtained before the commencement of the case under this title:

...

(b) The [filing of a bankruptcy petition] does not operate as a stay—

...

(4) under subsection (a)(1) of this section, of the commencement or continuation of an action or proceeding by a governmental unit to enforce such governmental unit's police or regulatory power;

(5) under subsection (a)(2) of this section, of the enforcement of a judgment, other than money judgment, obtained in an action or proceeding by a governmental unit to enforce such governmental unit's police or regulatory power;

11 U.S.C. §362 (1982).



989, 95th Cong., 2d Sess. 52, reprinted in 1978 U.S. Code Cong. & Admin. News 5787, 5838. We believe that the Secretary brought this suit under his police power. The Secretary brought the suit to protect legitimate businesses from unfair competition and to enforce the federal law regarding minimum wage. Since the Secretary is suing under the government's police power, his suit is exempted from the automatic stay provisions.<sup>8</sup>

Not only does the exception permit the Secretary's action to proceed, but it also permits the Secretary to enforce the action. This is an injunction under section 17 to prevent the sale of "hot goods" in interstate commerce; it is not an action for damages. Congress has declared that where a governmental unit is suing under its police power, section 362(b)(5) provides an exception to an automatic stay which "extends to permit an injunction and enforcement of an injunction."<sup>9</sup> Therefore, section 362 does not bar either the continuation or enforcement of an injunctive action under section 17 of the FLSA.

### C. Condition Precedent

[3] We believe that Congress established the payment of a minimum wage as a condition precedent to the ship-

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<sup>8</sup> Other cases in which a governmental unit has used under its police powers and avoided the Bankruptcy Code's automatic stay provision are: *NLRB v. Evans Plumbing Co.*, 639 F.2d 291 (5th Cir. Unit B 1981) (per curiam) (NLRB sued debtor for unfair labor practices); *EEOC v. Rath Packing Co.*, 787 F.2d 318 (8th Cir.) (EEOC brought suit under Title VII for discriminatory hiring), cert. denied, \_\_\_ U.S. \_\_\_, 107 S.Ct. 307, 93 L.Ed.2d 282 (1986); *Penn Terra Ltd. v. Department of Env'tl. Resources*, 733 F.2d 267 (3d Cir. 1984) (state government sued to enforce its environmental statute); and *Commodity Futures Trading Comm'n v. Co Petro Mktg. Group*, 700 F.2d 1279 (9th Cir. 1983) (CFTC sued to stop violations of the Commodities Exchange Act).

<sup>9</sup> S.Rep. No. 989, 95th Cong., 2d Sess. 52, reprinted in 1978 U.S. Code Cong. & Admin. News 5787, 5838 (emphasis added). Subsection (b)(5) also allows a governmental unit to obtain the entry of a money judgment, but not the enforcement of the money judgment, *Id.*

ment of manufactured goods. As the Supreme Court pointed out in *Citicorp*, Congress has banned many products from interstate commerce that are not produced in conformance with specified standards. 107 S.Ct. at 2701. Some of these banned goods include misbranded hazardous substances, 15 U.S.C. §1263(a) (1982), misbranded food, drug, and cosmetics, 21 U.S.C. §§33(a)-(c), (1982), and uninspected poultry products 21 U.S.C. §§458(a)(2) (1982). It is indisputable that a company's bankrupt status would not override Congress's insistence on the inspection of poultry or the proper branding of hazardous substances. Because of its concern about public safety, Congress established the inspection and branding of these products as conditions precedent to their sale. Thus, the bankrupt can choose between paying for the inspection and branding or keeping the products in storage.

Similarly, Congress established a condition precedent to the sale of manufactured products. Congress was concerned that the unrestricted sale of goods produced under substandard labor conditions would further erode working conditions throughout the country.

Congress had found that substandard wages and excessive hours, when imposed on employees of a company shipping goods into other States, gave the exporting company an advantage over companies in the importing States. Having so found, Congress decided as a matter of policy that such an advantage in interstate competition was an "unfair" one, and one that had the additional undesirable effect of driving down labor conditions in the importing States. *Maryland v. Wirtz*, 392 U.S. 183, 189, 88 S.Ct. 2017, 2020, 20 L.Ed.2d 1020 (1968). Consequently, Congress required manufacturers to comply with the minimum wage provision of the FLSA or to keep their products out of interstate commerce. Therefore, we believe Congress intended to keep "hot goods" out of interstate commerce in spite of the Bankruptcy Code, exactly as it would uninspected poultry or misbranded drugs.

### III. Conclusion

We believe that the Secretary of Labor's action is exempted from the Bankruptcy Code's automatic stay provision and that Congress intended to prevent the sale of "hot goods" in interstate commerce even when the manufacturer has filed for bankruptcy. Therefore, we reverse the district court's dismissal of the case, we vacate the order transferring the funds to the bankruptcy court, and remand for the payment of so much of the funds as necessary to remove the "taint."

REVERSED, VACATED and REMANDED.

(2)

No. 88-27

Supreme Court, U.S.

FILED

SEP 9 1988

JOSEPH E. SPANIOLO, JR.  
CLERK

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# In the Supreme Court of the United States

OCTOBER TERM, 1988

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RUSCO INDUSTRIES, INC., PETITIONER

v.

ANN McLAUGHLIN, SECRETARY OF LABOR

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ON PETITION FOR A WRIT OF CERTIORARI  
TO THE UNITED STATES COURT OF APPEALS  
FOR THE ELEVENTH CIRCUIT

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BRIEF FOR THE RESPONDENT IN OPPOSITION

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### **QUESTION PRESENTED**

Whether, where an employer has produced goods in violation of the Fair Labor Standards Act and subsequently declared bankruptcy, a district court acting at the behest of the Secretary of Labor retains power under 29 U.S.C. 217 not only to enjoin the sale of such "tainted" goods, but to allow their sale on the condition that the taint be removed by turning over to the Secretary the fruits of the sale equal to the unpaid minimum wages.





## TABLE OF CONTENTS

	Page
Opinions below .....	1
Jurisdiction .....	2
Statement .....	2
Argument .....	5
Conclusion .....	10
Appendix .....	1a

## TABLE OF AUTHORITIES

### Cases:

<i>CFTC v. Co Petro Mktg.</i> , 700 F.2d 1279 (9th Cir. 1983) .....	8
<i>Citicorp Industrial Credit, Inc. v. Brock</i> , No. 86-88 (June 22, 1987) .....	3, 4, 5, 6, 8, 9
<i>Donovan v. University of Texas</i> , 643 F.2d 1201 (5th Cir. 1981) .....	6-7
<i>General Telephone Co. v. EEOC</i> , 446 U.S. 318 (1980) ...	7
<i>Hodgson v. Wheaton Glass Co.</i> , 446 F.2d 527 (3d Cir. 1971) .....	7
<i>Ohio v. Kovacs</i> , 469 U.S. 274 (1985) .....	9
<i>Penn Terra, Ltd. v. Department of Environmental Resources</i> , 733 F.2d 267 (3d Cir. 1984) .....	7
<i>Wall Tube &amp; Metal Products Co., In re</i> , 831 F.2d 118 (6th Cir. 1987) .....	9
<i>Wirtz v. Malthor, Inc.</i> , 391 F.2d 1 (9th Cir. 1968) .....	7

### Statutes:

Bankruptcy Code, 11 U.S.C. (& Supp. IV) 1101 <i>et seq.</i> ...	2
Bankruptcy Reform Act of 1978, 11 U.S.C. 101 <i>et seq.</i> :	
11 U.S.C. (& Supp. IV) 362(a) .....	4
11 U.S.C. 362(b) .....	4
11 U.S.C. 362(b)(4) .....	4, 5, 6
11 U.S.C. 362(b)(5) .....	4, 5, 6, 7, 8
11 U.S.C. 507(a)(1) .....	9

#### IV

Statutes—Continued:	Page
Fair Labor Standards Act, 29 U.S.C. 201 <i>et seq.</i> :	
§ 6(a), 29 U.S.C. 206(a) .....	2
§ 15, 29 U.S.C. 215 .....	2, 7
§ 15(a)(1), 29 U.S.C. 215(a)(1) .....	2
§ 17, 29 U.S.C. 217 .....	2, 4
Miscellaneous:	
S. Rep. 95-989, 95th Cong., 2d Sess. (1978) .....	6

# In the Supreme Court of the United States

OCTOBER TERM, 1988

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No. 88-27

RUSCO INDUSTRIES, INC., PETITIONER

v.

ANN McLAUGHLIN, SECRETARY OF LABOR

---

ON PETITION FOR A WRIT OF CERTIORARI  
TO THE UNITED STATES COURT OF APPEALS  
FOR THE ELEVENTH CIRCUIT

---

BRIEF FOR THE RESPONDENT IN OPPOSITION

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## OPINIONS BELOW

The opinion of the court of appeals (Pet. App. 10a-17a) is reported at 842 F.2d 270. The March 20, 1986 opinion of the district court granting a temporary restraining order is reported at 27 Wage & Hour Cas. (BNA) 1476 (App., *infra*, 1a-4a). The following orders are unreported: the March 24, 1986 order of the district court authorizing the sale of Rusco's inventory and ordering the deposit of the proceeds in the district court registry (App., *infra*, 5a-6a); the May 27, 1986 order of the district court transferring the matter to the bankruptcy court (Pet. App. 1a-2a); the November 6, 1986 order of the bankruptcy court denying the Secretary of Labor's motion for disbursement of funds (*id.* at 3a-7a); and the November 13, 1986 order of the district court adopting the opinion of the bankruptcy court (*id.* at 8a-9a).

## JURISDICTION

The judgment of the court of appeals was entered on April 11, 1988. The petition for a writ of certiorari was filed on July 6, 1988. The jurisdiction of this Court is invoked under 28 U.S.C. 1254(1).

## STATEMENT

1. Petitioner, a manufacturer of windows and doors, did not pay its employees from January 20, 1986, to February 3, 1986, because of financial difficulty (Pet. App. 11a). On the latter date, petitioner filed for reorganization under Chapter 11 of the Bankruptcy Code, 11 U.S.C. (& Supp. IV) 1101 *et seq.* Thereafter, the Secretary of Labor brought this action in federal district court under Section 17 of the Fair Labor Standards Act (FLSA), 29 U.S.C. 217, requesting a temporary restraining order and preliminary injunction to enforce the "hot goods" provision (29 U.S.C. 215 (a)(1)),<sup>1</sup> which proscribes the transportation and sale in interstate commerce of goods manufactured in violation of the Act's minimum wage requirements (29 U.S.C. 206(a)).<sup>2</sup> The court granted the injunction on March 20, 1986 (App., *infra*, 1a-4a), and subsequently modified the order to allow the sale of a por-

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<sup>1</sup> Section 15(a)(1), the "hot goods" provision of the FLSA (29 U.S.C. 215(a)(1)), states in relevant part that "it shall be unlawful for any person \* \* \* to transport, offer for transportation, ship, deliver, or sell in commerce, or to ship, deliver, or sell with knowledge that shipment or delivery or sale thereof in commerce is intended, any goods in the production of which any employee was employed in violation of section 206 or section 207 of this title \* \* \*." Section 17 of the FLSA gives federal district courts jurisdiction to enjoin violations of Section 15 of the Act.

<sup>2</sup> Section 6(a) of the FLSA, 29 U.S.C. 206(a), sets a minimum wage rate, currently \$3.35 per hour, for employees engaged in commerce or in the production of goods for commerce or in an enterprise engaged in these activities.

tion of the "hot goods" and to require deposit of the sale proceeds with the court (*id.* at 5a-6a). In May 1986, the district court transferred the case to the bankruptcy court (Pet. App. 1a-2a, 11a).

The Secretary of Labor filed a motion in the bankruptcy court requesting that amounts equal to unpaid minimum wages be disbursed to him from the proceeds of the sale of the "hot goods," thus removing the "taint" (Pet. App. 11a & n.3).<sup>3</sup> In denying the motion (*id.* at 3a-7a), the court found that any disbursement required to remedy the minimum wage violation would have the practical effect of preferring one group of creditors over others, since the Secretary stated that the money would be used to pay the workers' unpaid minimum wages (*id.* at 5a-6a). It also found that such disbursement would cause assets of the estate to be released from the exclusive control of the bankruptcy court in violation of the clear purposes of the Bankruptcy Code (*id.* at 6a). The bankruptcy court ordered all proceeds turned over to the trustee and recommended that the district court dissolve its injunction (*id.* at 7a). The district court thereafter adopted the bankruptcy court opinion as its own, dissolved its injunction, and dismissed the Secretary's suit in its entirety (*id.* at 8a-9a).

2. The court of appeals reversed. Citing this Court's decision in *Citicorp Industrial Credit, Inc. v. Brock*, No. 86-88 (June 22, 1987), the appeals court noted that Congress' goal in enacting the "hot goods" provision of the FLSA was both to improve labor conditions and "to eliminate the competitive advantage enjoyed by goods produced under substandard conditions" (Pet. App. 13a (quoting *Citicorp*, slip op. 8)). The appeals court

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<sup>3</sup> The bankruptcy court had previously allowed the trustee appointed to administer petitioner's estate to sell additional inventory (Pet. App. 4a n.1) and ordered the proceeds deposited with the registry of the district court.

reiterated this Court's conclusion in *Citicorp* that preventing shipment " 'of goods produced under substandard conditions is not simply a means to enforce other statutory goals; it is itself a central purpose of the FLSA' " (Pet. App. 13a (quoting *Citicorp*, slip op. 9 n.8)). The court characterized the Secretary's suit as an injunctive action under 29 U.S.C. 217 — "not an action for damages" (Pet. App. 15a). It concluded that the action had been brought pursuant to the Secretary's police power "to protect legitimate businesses from unfair competition and to enforce the federal law regarding minimum wage" (*ibid.*). It therefore held that the suit was exempt from the automatic stay of the Bankruptcy Code (11 U.S.C. (& Supp. IV) 362(a)),<sup>4</sup> and that the police or regulatory power exemption from the automatic stay (11 U.S.C. 362(b)(4) and (5)) not only "permit[s] the Secretary's action to proceed, but it also permits the Secretary to enforce the action" (Pet. App. 15a).<sup>5</sup>

<sup>4</sup> 11 U.S.C. (& Supp. IV) 362(a) provides, in relevant part, that, except as provided in Section 362(b), the filing of a bankruptcy petition operates as a stay of

(1) the commencement or continuation, including the issuance or employment of process, of a judicial, administrative, or other action or proceeding against the debtor that was or could have been commenced before the commencement of the case under this title, or to recover a claim against the debtor that arose before the commencement of the case under this title;

(2) the enforcement, against the debtor or against property of the estate, of a judgment obtained before the commencement of the case under this title[.]

<sup>5</sup> 11 U.S.C. 362(b) provides, in relevant part, that the filing of a bankruptcy petition does not operate as a stay

(4) under subsection (a)(1) of this section, of the commencement or continuation of an action or proceeding by a governmental unit to enforce such governmental unit's police or regulatory power;

(5) under subsection (a)(2) of this section, of the enforcement of a judgment, other than a money judgment, obtained in an

The court further concluded that "Congress established the payment of a minimum wage as a condition precedent to the shipment of manufactured goods" (Pet. App. 15a-16a), and adverted to the discussion in *Citicorp* analogizing the "hot goods" provision to provisions banning products from interstate commerce "that are 'not produced in conformance with specified standards' " (Pet. App. 16a, citing *Citicorp*, slip op. 11). The appeals court reasoned that just as bankruptcy does not override the requirements for the inspection or proper handling of hazardous or potentially dangerous substances that are preconditions to shipping those goods in interstate commerce, bankruptcy does not override the FLSA requirement that the taint be removed from substandard goods as a condition of their sale in interstate commerce (Pet. App. 16a-17a).

### ARGUMENT

The court of appeals' decision is correct and does not conflict with any decision of this Court or of any other court of appeals. Accordingly, certiorari should be denied.

1. The filing of a bankruptcy petition automatically stays most non-bankruptcy lawsuits. However, the Bankruptcy Code, as an exception, allows "the commencement or continuation of an action or proceeding by a governmental unit to enforce such governmental unit's police or regulatory power" (11 U.S.C. 362(b)(4)), and also allows for "the enforcement of a judgment, other than a money judgment," obtained in such an action (11 U.S.C. 362(b)(5)). In view of this Court's decision in *Citicorp*, the court of appeals correctly concluded that the Secretary's action to enjoin the interstate shipment of hot goods, and then to remove the taint from the goods that were sold by

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action or proceeding by a governmental unit to enforce such governmental unit's police or regulatory power[.]



having proceeds equal to the unpaid minimum wages paid over to her for payment to the unpaid employees, is an exercise of the government's police power, and that this action is therefore exempted from the automatic stay provision of the Bankruptcy Act.

In *Citicorp*, this Court held that the FLSA's "hot goods" prohibition applies to a secured creditor seeking to sell or otherwise introduce into interstate commerce certain goods on which it had foreclosed, where those goods were produced by employees not paid in conformity with the FLSA's wage requirements. The Court explained that the aim of the FLSA was not just to establish decent wages and hours for workers, but also to "eliminate the competitive advantage enjoyed by goods produced under substandard conditions." *Citicorp*, slip op. 8. Applying the hot goods provision to secured creditors "furtheres this goal by excluding tainted goods from interstate commerce" (*id.* at 9). Moreover, this exclusion "is not simply a means to enforce other statutory goals; it is itself a central purpose of the FLSA" (*id.* at 9 n.8).

The exclusion from commerce of hot goods by the Secretary's injunctive action in this case is thus plainly an exercise of the government's "police or regulatory power" within the meaning of Section 362(b)(4) and (5). The Secretary's suit is not converted into an action covered by the automatic stay by virtue of the fact that the Secretary now asks that sufficient proceeds of the concluded sales of goods be surrendered in order to dissipate the taint. The action remains one "where a governmental unit is suing a debtor to prevent or stop a violation of \* \* \* police or regulatory laws." S. Rep. 95-989, 95th Cong., 2d Sess. 52 (1978). In view of the strong public policy behind the minimum wage law, the action remains one primarily "not to collect a debt but rather to redress a wrong being done to the public good." *Donovan v. University of Texas*, 643

F.2d 1201, 1208 (5th Cir. 1981) (citation omitted). Accord, *Hodgson v. Wheaton Glass Co.*, 446 F.2d 527, 535 (3d Cir. 1971); *Wirtz v. Malthor, Inc.*, 391 F.2d 1, 3 (9th Cir. 1968). Cf. *General Telephone Co. v. EEOC*, 446 U.S. 318, 326 (1980) (“[w]hen the EEOC acts, albeit at the behest of and for the benefit of specific individuals [under Title VII of the Civil Rights Act of 1964], it acts also to vindicate the public interest in preventing employment discrimination”).

More specifically, the court of appeals’ order that the Secretary receive enough of the proceeds of the sale to remove the taint from the goods is not properly characterized as the enforcement of a money judgment, as is explicitly excepted from the automatic stay exemption of Section 362(b)(5) (see Pet. 10). Most obviously, there was no pending money judgment to be enforced. There was rather only a body of assets generated when the courts below allowed the sale of goods produced in violation of the minimum wage law. At the request of the Secretary, the court of appeals exercised its equitable powers to dispose of those assets in a manner so as to dissipate the taint on the illegally produced goods. Nor was the Secretary’s suit here of “the type \* \* \* traditionally associated with the conventional money judgment.” *Penn Terra, Ltd. v. Department of Environmental Resources*, 733 F.2d 267, 278 (3d Cir. 1984). The suit did not involve an “attempt[] to seize property of the defendant” (*id.* at 275), but rather focused entirely on assets which indisputably could have been frozen indefinitely as hot goods barred from commerce by 29 U.S.C. 215.<sup>6</sup>

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<sup>6</sup> In any event, the fact that a debtor’s compliance with the FLSA might require the expenditure of money does not bring the Secretary’s action to enforce such compliance within the terms of the “enforcement of \* \* \* a money judgment” exception to the Section 362(b)(5) exemption from stay. See *Penn Terra, Ltd. v. Department of Environmental Resources*, *supra* (injunction requiring the expenditure

2. The court of appeals' holding that a debtor in bankruptcy must comply with the FLSA's "hot goods" provision is supported by this Court's decision in *Citicorp*. The Court stated that "Congress has determined that [hot goods] are contraband." *Citicorp*, slip op. 12. Just as "secured creditors take their security interests subject to the laws of the land" (*id.* at 11), debtors in bankruptcy also are not free to deal in "contraband" items in violation of the law.<sup>7</sup>

Thus, petitioner errs in arguing (Pet. 9) that the Secretary should not be allowed to enforce the "hot goods" provision here because "requiring the bankruptcy trustee to pay the Secretary" has the "undeniable effect" of prefer-

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of money by a bankruptcy debtor to comply with environmental laws is not an action to "enforce a money judgment" (733 F.2d at 278)); see also *CFTC v. Co Petro Mktg.*, 700 F.2d 1279 (9th Cir. 1983) (CFTC action to enforce securities law by compelling law firm to return money received from a bankrupt company in violation of CFTC regulations does not qualify as an action to enforce a money judgment and is exempted from stay under Section 362(b)(5)).

<sup>7</sup> Petitioner contends that application of the hot goods provision against a bankrupt debtor does not further the FLSA's goal of eliminating the competitive advantage enjoyed by hot goods, since the debtor's goods are "sold in a forced sale for a price which has no bearing on the cost of production" and the producer does not retain the profits from the sale (Pet. 12). This argument is unavailing. By concluding that the elimination of substandard goods from interstate commerce "is itself a central purpose of the FLSA" (*Citicorp*, slip op. 9 n.8), this Court has squarely rejected petitioner's position that the sale or transportation of these goods by the debtor or debtor's trustee is consistent with the Act's aims.

Moreover, as suggested in *Citicorp*, slip op. 10, enforcement of the hot goods provision notwithstanding bankruptcy will have the effect of discouraging persons able to monitor the operations of a financially troubled business—be they secured creditors or officers in the business—from financial practices that lead to minimum wage and overtime violations.

ring one set of creditors over others in violation of the Bankruptcy Code's priority of payments scheme. Until the taint is removed, creditors may not properly draw on the assets generated by the sale of those contraband goods. Just as in *Citicorp* the hot goods injunction did not give employees a "lien" on secured assets superior to that of a secured creditor (slip op. 11),<sup>8</sup> so here, too, the injunction does not give employees any interest in property of the estate contrary to the normal rules of priority in bankruptcy. In both cases, the injunction allows the Secretary to keep tainted goods from entering the channels of interstate commerce, and the sale of the goods can only be legal under the statute if the minimum wages are paid to dissipate the taint.

Even if the hot goods are properly treated as part of the bankruptcy estate, the Bankruptcy Code contemplates that a trustee will pay the expenses of compliance with valid governmental regulations out of the bankruptcy estate. A trustee, who "must comply with the [state] environmental laws" (*Ohio v. Kovacs*, 469 U.S. 274, 285 (1985)), may charge compliance costs as an administrative expense having priority over creditors' claims under 11 U.S.C. 507(a)(1). See, e.g., *In re Wall Tube & Metal Products Co.*, 831 F.2d 118, 123 (6th Cir. 1987) (cost of hazard-

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<sup>8</sup> In *Citicorp*, slip op. 9-10, the Court noted that "[h]ad the Department of Labor not obtained an injunction in this case, petitioner, as a secured creditor, would have converted several weeks of labor by the debtor's employees into goods covered by its security interest." If the Secretary's action to eliminate the "taint" from the goods were barred in the instant case, the petitioner's creditors would similarly have converted several weeks of the debtor's employees' labor, and would thus have reaped the ill-gotten benefits of these goods' illegal sale. The ultimate result would be that "'hot goods' produced by these uncompensated employees would have competed with goods produced in conformity with the FLSA's minimum wage and overtime requirements" (*id.* at 10).

ous waste cleanup required by federal law may be “deemed an administrative expense” of the estate in bankruptcy). Similarly, a trustee choosing to sell goods produced in violation of the FLSA’s wage and hour requirements may charge the estate for removing the “taint” on these goods without violating the Bankruptcy Code’s priority payment scheme.

### CONCLUSION

The petition for a writ of certiorari should be denied.  
Respectfully submitted.

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SEPTEMBER 1988

**APPENDIX**

**UNITED STATES DISTRICT COURT  
FOR THE SOUTHERN DISTRICT OF GEORGIA  
STATESBORO DIVISION**

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File No. CV 686-025

**WILLIAM E. BROCK, SECRETARY OF LABOR,  
UNITED STATES DEPARTMENT OF LABOR, PLAINTIFF**

**v.**

**RUSCO INDUSTRIES, INC., DEFENDANT**

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**[Filed Mar. 20, 1986]**

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**ORDER GRANTING TEMPORARY RESTRAINING ORDER  
AND PRELIMINARY INJUNCTION**

This matter is before the Court on plaintiff's Motion for Temporary Restraining Order and Preliminary Injunction. The essence of the motion, as well as the underlying Amended Complaint, which was filed under the Fair Labor Standards Act (29 U.S.C. section 201, *et seq.*), is that the defendant failed altogether to pay any wages to its employees employed at its facilities in Millen, Jenkins County, Georgia; Meadeville, Pennsylvania; and Santa Fe Springs, California for hours worked during the work-weeks ending January 24 and 31, 1986, in an amount of approximately \$150,000.00.

(1a)

Pursuant to section 15(a)(1) of the Act, it is unlawful for any person:

To transport, offer for transportation, ship, deliver, or sell in commerce, or to ship, deliver, or sell with knowledge that shipment or delivery or sale thereof in commerce is intended, any goods in the production of which any employee was employed in violation of section 6 [minimum wage] or section 7 [overtime]. . . .

The district court, sitting in equity, has the authority under section 17 of the Act to issue injunctions restraining violations of section 15 of the Act.

Here, plaintiff has requested a so-called "Hot Goods" injunction pursuant to section 15(a)(1), which would prohibit defendant from selling and/or shipping goods currently in inventory in interstate commerce unless or until the goods have been cleansed by payment of the back wages due its employees. As the court recently noted in *Ford v. Ely Group, Inc.*, 621 F.Supp. 22, 25-26 (W.D. Tenn. 1985; appeal pending, 6th Cir., No. 85-5249):

The basic purpose of the section 15(a)(1) prohibition, as the Supreme Court pointed out in *United States v. Darby*, 312 U.S. 100, 109-110, 61 S.Ct. 451, 454-55, 85 L.Ed. 609, "is to exclude from interstate commerce" goods produced under substandard labor conditions, which would compete unfairly with goods produced by complying employers, and which in their total effect might force complying employers out of business."

\* \* \* \* \*

An action to enforce the section 15(a)(1) prohibition is brought, not to compel the foreclosing creditor to pay the statutory wages or to put pressure on the de-



faulting producer to pay such wages, but to keep tainted goods from entering the channels of interstate commerce in competition with goods produced under the Act's standards.

See also *Donovan v. TMC Industries*, 25 WH Cases 829 (N.D. Ga. 1982).

On February 26, 1986 and again on March 14, 1986, the Court held telephonic hearings with counsel for both parties and determined that in fact the employees had not been paid and that defendant had intentions of selling and/or shipping goods in inventory in interstate commerce.

It is the Court's opinion that under the undisputed facts of the case, allowing defendant to sell and/or ship goods in interstate commerce:

[W]ill result in the immediate and irreparable injury or damage to plaintiff and the public interest in that such shipment and movement of goods will make use of the channels and instrumentalities of interstate commerce to spread and perpetuate an unfair method of competition and interfere with the orderly and fair marketing of goods in commerce.

*Ford v. Ely Group, Inc.*, *supra*, 621 F.Supp. at 26-27.

It is therefore ORDERED, ADJUDGED and DECREED that defendant, its officers, agents, servants, employees and all persons acting in concert and participation with them who receive notice hereof, hereby are temporarily enjoined and restrained from:

- (1) Paying their employees at rates less than the minimum wage rate prescribed by section 6 of the Act [29 U.S.C. 206]; and
- (2) transporting, offering for transportation, shipping, delivering or selling in commerce any goods

produced by their employees who were paid in violation of section 6 of the Act, or shipping, delivering or selling with knowledge that shipment or delivery or sale thereof in commerce of such goods or products is intended, in violation of section 15(a)(1) of the Act.

IT IS FURTHER ORDERED that defendant shall within five days of entry of this Order:

- (1) Make all of its time and payroll records for the period from the week ending January 24, 1986 to date available to plaintiff's representatives; and
- (2) submit to plaintiff's representatives an inventory of all goods stockpiled or stored at defendant's facilities in Millen, Jenkins County, Georgia, Meadville, Pennsylvania and Santa Fe Springs, California.

This Temporary Restraining Order shall remain in effect for 10 days from the date of entry and shall automatically be converted to a Preliminary Injunction upon expiration of the 10 days unless otherwise ordered by the Court.

Dated and ordered this 20th day of March, 1986.

/s/ DUDLEY H. BOWEN, JR.  
Dudley H. Bowen, Jr.  
United States District Judge

IN THE UNITED STATES DISTRICT COURT  
FOR THE SOUTHERN DISTRICT OF GEORGIA  
STATESBORO DIVISION

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Civil Action CV 686-025

WILLIAM E. BROCK, SECRETARY OF LABOR,  
UNITED STATES DEPARTMENT OF LABOR, PLAINTIFF

v.

RUSCO INDUSTRIES, INC., DEFENDANT

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[Filed Mar. 24, 1986]

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**ORDER**

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WHEREAS, this Court entered an order on March 20, 1986, restraining Rusco Industries, Inc. ("Rusco") from disposing of certain inventory through interstate commerce; and

WHEREAS, Rusco has filed a motion seeking to modify said order so that it may sell certain inventory and thereby generate proceeds for the benefit of its creditors; and

WHEREAS, Rusco states that the value of such inventory will decrease substantially unless it can be sold as soon as possible;

IT IS HEREBY ORDERED that Rusco is authorized to sell any inventory in its possession; provided, however, that the proceeds from such sales shall be made payable

to, and immediately forwarded to the Clerk, U.S. District Court, P. O. Box 1130, Augusta, GA 30903, attention case number CV686-025, for deposit to the registry of this Court pending further order thereon.

IT IS FURTHER ORDERED that the Bankruptcy Clerk of this district shall serve a copy of this order upon First National Bank of Atlanta, and AMR, Inc., the only known creditors claiming an interest in Rusco's inventory and accounts receivable, and upon the members of the equity security holders committee and unsecured creditor committee. Any parties in interest shall show cause before the undersigned district judge at a hearing to be held on April 21, 1986, at 5:00 o'clock P.M. at Savannah, Georgia, why such funds should not be applied to the unpaid wages of Rusco's employees which accrued prior to the [sic] Rusco's bankruptcy filing on February 3, 1986.

ORDER ENTERED at Augusta, Georgia, this 24th day of March, 1986.

/s/ DUDLEY H. BOWEN, JR.

United States District Judge

